

**Testimony of Bob Balgenorth**  
**President, State Building & Construction Trades Council**  
**to**  
**California Performance Review Commission**  
**On Transportation Issues**  
**at U.C. Riverside**  
**August 13, 2004**

Members of the Commission:

Thank you for inviting me to speak.

I am encouraged to see that the report clearly recognizes the need to build and maintain our highways and transportation systems. However, you can make all the operational improvements in the world, but in the absence of adequate funding and good leadership, the improvements will have no effect.

Transportation funding has an enormous impact on California's economy. The Federal Highway Administration estimates that 25,000 construction industry jobs are created for each \$1 billion spent on transportation, and another 20,000 jobs are created from the ripple effects.

Transportation requires predictability of revenue to do long-term planning, purchase property, complete the environmental process, and award the construction contract. Proposition 42, approved in 2002 by nearly 70 percent of the voters should have provided a much-needed predictable revenue stream. Clearly, it has failed because of a loophole that allowed its funding to be diverted to fill state budget gaps.

Since 2002, a combination of loans, transfers, and diversions has robbed transportation of more than \$3 billion. The funding shortage is so severe that the California Transportation Commission has been unable to make a single allocation to capacity-increasing projects since June of 2003. Even the most basic rehabilitation projects are at risk if either Proposition 68 or Proposition 70 wins in November. Yet the report does not address the funding issue in any meaningful way.

The cost to the economy of failing to maintain our transportation systems has left California – the wealthiest state in the richest nation on the planet – with the roughest roads in the country at a cost of more than \$20 billion-a-year in lost productivity.

The report identifies a number of recommendations that would improve the system, such as performance measures and the use of warranties.

- Additionally, we agree that capital costs should not be the only consideration in project selection. The report's proposal to consider life-cycle costs makes sense.
- Owner Controlled Insurance Programs also make sense. The specifications should include a safety requirement. Unqualified or careless contractors should not have their insurance risk spread over the pool of safety conscious contractors.

An early use of OCIPs by a public agency in California was right here in Riverside County. The Metropolitan Water District's \$2 billion reservoir in Hemet saved the public \$30 million in insurance expenses by including a negotiated workers' compensation program.

State agencies should be required to assess the cost savings of including a negotiated workers' compensation program. Employers who have participated in these programs reported 15-to-18 percent decreases in claims costs.

Some of the recommendations raise concern.

- Design-build should proceed with caution. Safeguards must be put in place to ensure California contractors and California workers build California projects.

For example, the pilot program for schools put California contractors at a competitive disadvantage, and the first design-build school was awarded to an out-of-state contractor.

I am concerned that design-build will limit competition.

The recommendation to require contractors to submit their qualifications under penalty of perjury is right on the mark. During the project, contractors should be required to automatically submit copies of certified payrolls and proof of workers compensation payments. Something is wrong with a system that allows unscrupulous contractors to steal their workers' wages with only a small fine while someone who steals a carton of milk faces jail.

- Both prime and subcontractors should be subject to strong pre-qualification requirements that include a demonstrated safety record and health care for workers.
- A number of the report's recommendations limit policy development to the Executive Branch. An essential element of good leadership is ensuring that a broad range of views are considered before policy is set. For example, I believe the Governor's State Plan Coordination Council should contain representatives appointed by the Assembly and Senate. This would provide for the broadest range of input, but still allow the Governor to set policy.

And finally, this report should recognize the partnerships necessary to build a transportation system that will grow the California economy. We must have the vision and leadership necessary to bring all the stakeholders – public sector and private sector – together in an open and inclusive process that will be critical for success.